

Indiana Property Taxes: How We Got Here

Larry DeBoer
Department of Agricultural
Economics
Purdue University
July 23, 2007

How We Got Here: Supreme Court Decision

- For decades houses were under-assessed compared to business property
- 1993 Town of St. John lawsuit challenges assessment practice
- 1998 Supreme Court decision requires assessment based on objective measures of property wealth; market value assessment

How We Got Here:

Reassessment and Restructuring

- 2002-03 reassessment raises tax bills for older homes, rental housing, farm land
- June 2002 tax restructuring raises sales, cigarette and gaming taxes to provide a billion dollars in added property tax relief; makes many other changes in taxation

How We Got Here: Inventories

- Restructuring schedules full elimination of property tax on inventories for 2007 taxes; 41 counties adopt early; 51 remain for 2007
- Counties are allowed to use income tax to protect homeowners from tax shift; 42 did so
- Inventory tax elimination ratified by voters in 2004 constitutional referendum

How We Got Here: Trending and Tax Relief Cap

- Supreme Court decision requires trending, the annual adjustment of assessed values for changes in market values; adopted in 2001, scheduled to start for 2007 taxes; a six-year price adjustment, 1999 to 2005 values
- 2005 General Assembly caps growth of property tax relief in state budget at just over \$2 billion a year; cap becomes effective in 2007

Homeowner Property Taxes, 2007

Estimated average increase in homeowner taxes, statewide (before end-of-year rebate)	24%
Inventory tax elimination in 51 remaining counties	4%
Cap on state tax relief	4%
Trending from 1999 to 2005 prices; possible business trending error	10%
Increases in local government tax collections	6%

Who and How?

- Who should pay for local government?
 - Assessment divides local government costs among taxpayers
 - Market value assigns greater share to homeowners than old assessment method
- How should we pay for local government?
 - State property tax relief shifts taxation to state sales taxes (and other state taxes)
 - Local property tax relief shifts taxation to local income taxes